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TAGS: [ECIN](#) [EFIN](#) [ETRD](#) [PREL](#) [TW](#) [CH](#)
SUBJECT: BEIJING CONTACTS HAIL ECONOMIC "BREAKTHROUGH" AT
CROSS-STRAIT TALKS IN NANJING

REF: A. TAIPEI 500
[1](#)B. BEIJING 1080

Classified By: Minister Counselor Robert S. Luke. Reasons 1.4 (b/d).

Summary

[1](#)1. (C) Embassy contacts trumpeted the outcome of the April 25-26 PRC-Taiwan dialogue in Nanjing as a breakthrough for cross-strait economic cooperation. Two contacts noted that the rapid progress since the renewal of talks in June 2008 had "exceeded expectations." The Financial Cooperation Agreement signaled a willingness to "normalize" economic relations, contacts said. Taiwan businessmen would be the biggest beneficiaries; Mainland firms seeking to do business in Taiwan would still face investment and market access restrictions. The anti-crime agreement might help Taiwan pursue economic criminals who fled to the Mainland, but Mainland authorities would still only approve extradition on a case-by-case basis. A third agreement on air travel would expand cross-strait air links and allow for regularly scheduled flights rather than charters. Perhaps the biggest outcome of the Nanjing meeting was the decision to commence dialogue on an Economic Cooperation Framework Agreement (ECFA), which our interlocutors said was critical for Taiwan to avoid being negatively impacted when the China-ASEAN FTA is phased in beginning next year. Contacts agreed that the domestic situation in Taiwan is the biggest obstacle to achieving an ECFA and said that the mainland is willing to accept unfavorable terms to further its goals of economic and political integration. End Summary.

SEF-ARATS Agreements a Significant Breakthrough

[1](#)2. (U) On April 26 in Nanjing, representatives from the Mainland's Association for Relations Across the Taiwan Strait (ARATS) and Taiwan's Straits Exchange Foundation (SEF) signed three agreements covering cross-strait economic relations. The Financial Cooperation Agreement signed in Nanjing is designed to ease investment regulations, and the Anti-Crime Agreement aims to facilitate faster extradition of criminals. The third document, the Air Traffic Agreement, will increase the number of cross-strait flights and allow them to operate as "regularly scheduled" flights rather than charters.

[1](#)3. (C) Guo Zhenyuan, a Senior Fellow at the MFA-affiliated China Institute of International Studies told EmbOff April 27 that the agreements reflected a renewed emphasis on "pragmatic progress" by both sides and that cross-strait advances over the past year have "far exceeded expectations." With minor exceptions, Guo said, the "three direct links" between the two sides were now "fully realized." Chen Guoyuan, Secretary General of the Beijing Taiwan Enterprise Association (BTEA), an organization representing Taiwan investors in Beijing, was even more effusive in his praise of the agreements, telling EmbOffs on April 28 that the Nanjing

talks had yielded a "very important breakthrough." He noted that these agreements had been on hold for 12 years, and now, in three rounds of cross-Straits talks over the last 10 months, all had been realized. Chen assessed that the agreements and the expected signing of an Economic Cooperation Framework Agreement (ECFA) could result in an increase of \$30 billion in two-way trade with the mainland. He asserted that the primary motivation for the Mainland was to demonstrate "good will" towards Taiwan since the ECFA and other economic agreements disproportionately benefited Taiwan. Tao Wenzhao, Senior Fellow at the Chinese Academy of Social Sciences, was more measured in his assessment of the talks, telling Embassies April 29 that the agreements merely represented a consensus to focus on economic issues.

Direct Flights Finalized

14. (C) After nearly a year of regular direct charter flights, the Air Traffic Agreement paves the way for the establishment of regularly scheduled direct flights and expands the number of flights from 108 to 270 per week. In addition, the agreement adds six more Mainland cities (Hefei, Harbin, Nanchang, Guiyang, Ningbo, and Jinan) to the 21 already included in the charter flight agreement. CIIS' Guo predicted that one benefit of the agreement of regular direct flights would be lower airfares, noting that the direct charter flights were still more expensive than those that include a stopover in Hong Kong or Macao. BTEA's Chen pointed out that most in Taiwan were happy about the direct flights and criticized Democratic Progressive Party (DPP) Chair Tsai Ing-wen for calling the agreement a "failure"

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because it did not include fifth freedom rights. (Note: the right to carry passengers from one country to a second country and then on to a third country). Chen argued that "no one was willing to touch" the issue of fifth freedom because that involved sovereignty issues, an obviously contentious topic. Tao commented that the two sides agreed in 2005 to call the flights "cross-Straits," thereby avoiding the contentious question whether they were "domestic" or "international." (Note: There is no indication that China or Taiwan would treat the routes as anything but domestic for purposes of their respective civil relations with third countries. End Note.)

Financial Cooperation Broadened

15. (C) The Financial Cooperation Agreement establishes a supervision mechanism to oversee the mutual establishment of banks and business services. It also paves the way for currency exchange between the Renminbi and the New Taiwan Dollar, which had been limited to 20,000 RMB (USD 3000) per transaction for personal accounts only, and lifts some caps on mainland investment in Taiwan. Guo said the agreement on financial cooperation represented Taiwan's acceptance in principle of "normalization" of economic and trade relations.

He predicted that initially the pact will be a boon to Taiwan businesses in the Mainland by allowing them a means to exchange currency and have access to Taiwan-based financial services. Chen agreed, saying Taiwan businesses were happy that the 20,000 RMB limit on personal currency exchange will be eliminated.

16. (C) Chen explained that the Financial Cooperation Agreement raised the limit on mainland investment in Taiwan businesses from 20 percent to 40 percent and suggested this would be raised again to 51 percent by the end of 2009. According to newspaper reports, Taiwan currently limits mainland investment to the real estate sector but, with this agreement, will now allow participation in the manufacturing and service sectors. However, Mainland investment will not be permitted in LED screen production, semi-conductors and other sensitive high-tech industries. Tao Wenzhao commented

that that the Mainland would be very cautious in its investment, especially from state-owned enterprises, to avoid stoking fears on Taiwan that the PRC was trying to "buy Taiwan."

No More Government Restrictions on Chinese Procurement

17. (C) The Financial Cooperation Agreement also eliminates the mainland's restriction on procuring products directly from Taiwan companies. Chen predicted this would give a boost to Taiwan's economy. As an example, Chen said the mainland could now designate Taiwan as a provider of pipeline materials for infrastructure assistance projects in Africa. This would be a minor decision for the mainland but would have a significant impact on Taiwan's economy, he said. (Note: There is no indication that China would treat Taiwan firms as domestic under its government procurement law. End Note).

Extradition of Taiwan Economic Criminals

18. (C) Guo Zhenyuan said the Anti-Crime Agreement should help Taiwan extradite organized crime figures who have fled to the Mainland. He said that there were few, if any, Mainland criminals on Taiwan, as most corrupt Mainland officials fled to North America or Europe. Guo noted the Anti-Crime Agreement had significant political implications because it compelled the two sides' legal systems to work together. Chen agreed that the main concern for Taiwan was economic criminals hiding on the Mainland. He pointed out, however, that the agreement only deals with "middle to large" cases and that the PRC would agree to extradite the criminals only on a case-by-case basis. Some Taiwan fugitives facing charges back home have spent a lot of money in the Mainland currying political favor. It was unlikely, he assessed, that the PRC would agree to send these well-connected individuals back to Taiwan to face justice. CASS's Tao disagreed, however, speculating that some high-profile Taiwan criminals might be extradited to show the PRC's sincerity in honoring the agreement.

ECFA Would be the Biggest Prize

19. (C) A major accomplishment of the ARATS-SEF meeting was the announcement to start talks on an ECFA, Beijing contacts

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remarked. Guo pointed out that the Mainland's interest in starting ECFA discussions signified PRC willingness to accommodate Taiwan, regardless of what the agreement was called, as long as it was conducive to the development of cross-Straits relations. Chen admitted that Taiwan businesses had been "envious" of Hong Kong and Macao for their Comprehensive Economic Partnership Agreement (CEPA) with the Mainland because of the benefits such agreements had accrued to the respective economies. Despite protests to the contrary, Taiwan was pursuing a similar deal with the mainland, Chen opined. Chen said the entry into force of the ASEAN plus 3 free trade area in 2010 made it "extremely urgent" for Taiwan to conclude an ECFA with the Mainland by the end of this year. He asserted that it was "unthinkable" for this not to take place as it would be very damaging to Taiwan's economy and would "isolate" Taiwan from the rest of Asia. He said that his association was working very hard to lobby the Taiwan government on this point.

110. (C) Chen expected an ECFA to be tantamount to an "unequal treaty" in that Taiwan would benefit from the agreement far more than the Mainland. He asserted that for the Mainland "the symbolic importance of the agreement outweighs economic considerations." For this reason, he predicted, the Mainland would have no limit on Taiwan exports to the mainland, but Taiwan would restrict Mainland agricultural imports and

labor. Guo and Tao separately agreed that the Mainland was not going to insist on specific concessions for Taiwan market access because of its interest in building a peaceful development framework that would eventually lead to political integration. Tao insisted, however, that there was no timetable or specific plan for achieving that, other than it is a "goal for the 21st century." Chen admitted that the fact that Beijing was willing to accept the ECFA on possibly unfavorable economic terms gave the DPP some ammunition to say that Beijing was seeking the agreement as part of its effort to integrate the economies as a prelude to political reunification. Chen said that, in fact, an ECFA would make it very difficult for Taiwan to distance itself politically from the Mainland in the future.

Politics Still An Issue

11. (C) Our contacts saw the domestic political situation in Taiwan as the biggest impediment to signing the ECFA. Chen said in addition to DPP opposition, all the ministries in Taiwan would be involved in the ECFA process and the Legislative Yuan might demand the right to ratify the agreement, which could complicate the issue. Chen argued, however, that the DPP's opposition to ECFA would not help it politically in Taiwan because of what he believed would be widespread support for the measure. He said the DPP was unwittingly helping Ma Ying-jeou, making it easier for him to demand special treatment for Taiwan from the Mainland to make an ECFA more politically palatable. Guo Zhenyuan expressed frustration with Ma in "yielding too easily" to opposition pressure. He asserted that most polls showed 60-70 percent support for the agreement, and that Ma should stick to his position.

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